

**HUDSON AREA SCHOOLS
HUDSON, MICHIGAN
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008
WITH
INDEPENDENT AUDITORS' REPORT**

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**Hudson Area Schools
Management Discussion and Analysis
For Fiscal Year Ending June 30, 2008**

This section of the Hudson Area School District's annual financial report presents our discussion and analysis of the District's financial performance and picture during the fiscal year ending June 30, 2008. For this year, the focus of the letter will be slightly different. While the required analysis will be provided, there is also included indictment of the State of Michigan's procedures, policies and funding.

The school district's Annual Audit Report consists of a series of financial statements, which shows the district's information as a whole, its funds, and fiduciary responsibilities. The Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements- Management's Discussion and Analysis-for State and Local Governments issued June, 2002 adopted the report model. Certain comparative information between the current and the prior year is required in preparing the MD&A.

Using the Annual Audit Report

This report has been prepared and organized so the reader can understand Hudson Area Schools District's financial picture. The Government-wide Financial Statements, which include the **Statement of Net Assets** and the **Statement of Activities**, provide information about the activities of the whole School District and present both an aggregate view of the School District's finances and a longer-term view of those finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The fund financial statements provide the next level of detail for the reader. These statements provide greater detail on the School District's operations, specifically by presenting the detail in the most significant funds-such as the General Fund, Capital Projects Fund, Debt Retirement Fund and of course by the Service Funds (Athletics and Food Service). The remaining statements in the report present the financial information about activities in which the school district is merely the agent for the benefit of the students and the parents.

The report also has notes to the financial statements. The contained notes provide further explanation for some of the information continued in the financial reports. The statement and notes are further followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Below represents the tiered structure of the Annual reports, showing how the various parts of the annual report are arranged and related to one another.

Organization of Hudson Area School District's Annual Financial Report

Management's Discussion & Analysis (MD&A)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for General Fund

Reporting the School District as a Whole-District Wide Financial Statements

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" In order to answer this question, readers should first look to The **Statement of Net Assets** and the **Statement of Activities**; these statements appear first in the School District's financial statement. These two statements report information on the School District as a whole. These statements were prepared using the accrual basis of accounting, which represents the current year's revenues and expenses taken into account regardless of when the cash was received or paid.

The first of these two statements represent the difference between assets and liabilities, as reported on the **Statement of Net Assets**. This is of course one-way to measure the financial wealth of the District. Over time, there will be increases or decreases in the School District's Net Assets. These increases or decreases in Net Assets will be reported in the **Statement of Activities**. Therefore, the relationship to the School District's revenues and expenses signifies the operating results. It is imperative to say that the School District's goal is to provide services to our students, not to generate profit like public entities do. The reader must take into consideration the numerous non-financial factors, such as the quality of education provided and the safety of the students to assess the overall position of the School District.

The **Statement of Net Assets** and **Statement of Activities** report the governmental activities for the School District, which encompass all of the School District's Services, including instruction, supporting services such as operations and maintenance, transportation, athletics, food service and capital improvements. Property taxes, unrestricted State Aid (foundation allowance revenue) and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds: Fund Financial Statements

The School District's Fund financial statements provide detailed information about the School Districts most significant funds-not the School District as a whole. The School District establishes funds to help it control and manage money for a particular purpose (such as Food Service, Athletics) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other monies (such as Special Revenue). Some funds are also required by State law and by bond covenants. The School District's major funds are General Fund and Special Revenue Fund. The governmental funds of the School District use the following accounting approach:

Governmental Funds-All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the **Statement of Net Assets** and the **Statement of Activities**) and governmental funds in reconciliation.

Fund types include the General Fund, School Service Fund, Debt Retirement Fund, Capital Projects Fund, Special Revenue Fund and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions and grants and other intergovernmental revenues. The School Service Fund is comprised of Athletic Activities and Food Service. The Debt Fund is used to record the funding and payment of school districts bonded debt. (The only activity in this fund for the District is the financial resources to be used for the acquisition, construction or improvement of major capital facilities). The Special Revenue Fund is used to record the funding and expenditures of monies specified for a specific purpose. The Fiduciary Fund accounts for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.

The School District as a Whole

The School District's Net Assets were \$1,935,027 as of June 30, 2007 and \$1,704,276 as of June 30, 2008, representing a net loss of \$(230,751). Of the total amount \$436,811 were unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The analysis below focuses on the Net Assets (Table 1) and Change in Net Assets (Table 2) of the School District's governmental activities.

**HUDSON AREA SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2008**

ASSETS	<u>Governmental Activities</u>	
CURRENT ASSETS:	2008	2007
Cash and cash equivalents	\$ 923,629	\$ 1,028,932
Investments	225,335	217,186
Accounts receivable	186,973	84,512
Taxes receivable	5,626	13,405
Due from other governmental units	1,344,574	1,650,134
Inventory	1,505	1,609
Prepaid expenses	<u>4,588</u>	<u>4,588</u>
TOTAL CURRENT ASSETS	<u>2,692,230</u>	<u>3,000,366</u>
NONCURRENT ASSETS:		
Capital assets	9,479,538	9,393,425
Less: Accumulated depreciation	<u>(4,526,011)</u>	<u>(4,282,917)</u>
<u>TOTAL NONCURRENT ASSETS</u>	<u>4,953,527</u>	<u>5,110,508</u>
TOTAL ASSETS	<u>\$ 7,645,757</u>	<u>\$ 8,110,874</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 51,466	\$ 227,176
Accrued salaries and related items	792,535	710,582
Accrued interest	58,885	52,679
Unearned revenue	11,455	3,408
State aid loan	950,000	700,000
Current portion of long-term obligations	457,064	421,860
Current portion of compensated absences	39,655	33,000
TOTAL CURRENT LIABILITIES	<u>2,361,060</u>	<u>2,148,705</u>
NONCURRENT LIABILITIES:		
Noncurrent portion of long-term obligations	3,507,293	3,964,350
Compensated absences	<u>73,128</u>	<u>62,792</u>
TOTAL NONCURRENT LIABILITIES	<u>3,580,421</u>	<u>4,027,142</u>
TOTAL LIABILITIES	<u>5,941,481</u>	<u>6,175,847</u>
NET ASSETS:		
Invested in capital assets, net of related debt	989,170	724,298
Restricted for:		
Debt services	120,178	115,593
Capital improvements	16,887	31,671
School lunch	141,230	116,972
Unrestricted	<u>436,811</u>	<u>946,493</u>
TOTAL NET ASSETS	<u>\$ 1,704,276</u>	<u>\$ 1,935,027</u>

The \$436,811 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if the District had to pay off all of outstanding bills today, including all noncapital liabilities, (compensated absences for example); there would be \$436,811 left. The balance is directly affected each year by the District's operating results.

As reported below in the Statement of Activities, the cost of all governmental activities this year was \$9,370,653 as compared to \$9,116,201 for the year ended June 30, 2007. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and categorical programs. The district paid for the remaining "public benefit" portion of our governmental activities with \$1,200,533 in taxes, \$6,646,559 from State Sources and \$259,404 from Lenawee ISD and other sources like interest and general entitlements.

**HUDSON AREA SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Governmental Activities	
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets	
				<u>2008</u>	<u>2007</u>
GOVERNMENTAL ACTIVITIES:					
Instruction	\$ 5,300,134	3,838	\$ 242,463	(5,053,833)	(4,895,774)
Support services	2,750,597		192,588	(2,558,009)	(2,322,958)
Food services	409,632	202,546	214,733	7,647	44,833
Athletics	316,985	91,927		(225,058)	(237,960)
Community Services	62,252	3,750	51,854	(6,648)	44
Capital Outlay	3,867			(3,867)	(2,055)
Other	86,319			(86,319)	(123,466)
Interest on long-term debt	197,773			(197,773)	(196,149)
Unallocated depreciation	<u>243,094</u>			<u>(243,094)</u>	<u>(253,732)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 9,370,653</u>	<u>\$ 302,061</u>	<u>\$ 701,638</u>	<u>(8,366,954)</u>	<u>(7,987,217)</u>
GENERAL REVENUES:					
Property taxes, levied for general purposes				741,468	679,237
Property taxes, levied for debt service				459,695	343,815
Investment earnings				29,077	40,436
State sources				6,646,559	6,923,904
Lenawee ISD Special Education allocation				193,955	151,928
Contributions private sources				15,902	27,168
Other				<u>49,547</u>	<u>101,104</u>
TOTAL GENERAL REVENUES				<u>8,136,203</u>	<u>8,267,592</u>
CHANGE IN NET ASSETS				(230,751)	280,375
Net assets, beginning of year				<u>1,935,027</u>	<u>1,654,652</u>
Net assets, end of year				<u>1,704,276</u>	<u>1,935,027</u>

As presented above, the costs show the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State prescribed available unrestricted resources.

Financial Analysis of the School District's Funds

The financial performance of the district as a whole is reflected in its governmental funds as well. The combined Governmental Fund Equity **decreased** from \$1,313,816 in 2007 to \$835,362 in 2008. The primary factors affecting the fund equity are listed below.

GENERAL FUND

Factors affecting Revenue

- State Aid Funding – The State of Michigan provided a \$7,204 per pupil foundation allowance that provides a substantial portion of the District's revenue. In addition the District also receives various grants from the State. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. State aid payments are made with the first payment of the school year beginning in October, and the final payment being made in August. Therefore, at the end of the District's fiscal year, there is an adjustment made that includes two months of state aid payments not received in the fiscal year in which the corresponding expenses occur.
- It is no secret that the Michigan economy has been in a crisis state for years. The effect of this financial crisis on schools has been devastating. Districts have made cuts until no more cuts are possible. Additionally, the State of Michigan regularly makes prior year adjustments, unbeknownst to the local schools, until notified after the fact. It is not unusual to close one year's books as of June 30th and in late September or October receive a notice that a prior year adjustment has been made from three fiscal years ago. And yet, the State mandates that the district's accounts vary by no more than 1%. To further complicate matters, by concrete example, the taxable value of properties within the Hudson Area Schools' attendance areas has DECREASED. But the district has not received notice of same until AFTER the closing of the fiscal year, making accurate revenue reporting IMPOSSIBLE. For the 2007-08 school year, this practice resulted in a significant deficit as reported in this audit, yet the unrealized funds are due to the district. When the State will actually provide the district the revenue is unknown, resulting in yet another year of asking the impossible of local districts.
- Borrowing – The School District is primarily funded by State Aid payments, which are not received throughout the entire school year. Because of this, the district borrows money each year. The funds were repaid in one lump sum in August of 2008. Since the District's financial well-being is dependent on the State's financial well-being, the fact that the State of Michigan is lagging behind all other States in the Country is the sole cause of the District's need to borrow and making drastic program and staffing cuts over the past four years.
- Enrollment – Enrollment in the Hudson Area Schools continues to decline, exacerbating an already impossible financial situation.

Factors affecting Expenses

- Salaries and Benefits – A significant portion of the School District's expenses are related to compensation of employees. Districts across the State of Michigan are in a position where unless the State of Michigan and its citizens do something to adequately fund schools, our system will collapse – placing generations of Michiganders at risk.
- Instructional purchases, including textbooks and supplemental learning materials, supplies, and purchased services comprise a substantial part of each year's budgetary expenditures.
- Operations and maintenance of our school buildings and vehicles also require a substantial portion of the district's budget.

General Fund Budgetary-Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget once during the school year. In fact, all Michigan school districts must complete a second full budget after the state's official student membership count date (the fourth Wednesday in September), because only then are they knowledgeable of their Foundation Grant level. Even then, the numbers are unreliable, as the State regularly makes prior year adjustments without explanation or district recourse. The following analysis describes the reasons for change in the budget during the year.

- The majority of Local Revenues are property taxes received from six townships including Hudson, Dover, Medina, Rollin, Wheatland, Wright Townships and the City of Hudson. There was a decrease due to the closing of M&S, resulting in changes in homestead housing and actual taxes collected.
- State Revenues were budgeted at **\$6,926,502, versus actual of \$6,856,396 for a difference of \$(70,106).** The decrease is a direct result of the changes in taxable value. This means that the local revenue collected was less than expected and the State has not yet made the district whole. To further complicate the matter, the district still has not received the \$213,000 owed by the State from prior year adjustments. The district is dependent on the State, the County Equalization Department, the County Treasurer, and the Local Township Treasurers all working together in a timely manner in order to receive the amount of funding due.
- Expenses – The estimated budget for expenses was **\$8,647,774 versus final expenditures of \$8,627,817** for a difference of **\$(19,957).** For the past four years, the District has been consistently reducing expenses through budget cuts and “tightening the belt”. The standard has become, *if it is not absolutely necessary, don't buy it.* However, the costs of salaries, benefits, and other fixed expenses are not as easily projected as in past years. A seemingly small fluctuation in costs can create a trickle down effect across the entire budget.

SPECIAL REVEUE FUNDS

- School Lunch Fund – The School Lunch Fund receives its revenues from the sale of goods, federal grants, and when needed, transfers from the General Fund. For the year 2007-2008, the General Fund did not transfer any funds into the School Lunch Fund; the Fund **had excess revenues over expenditures of \$24,258, for a total of \$141,230 in fund balance.**
- Athletic Fund – The Athletic Fund receives its revenues from admission fees, and transfers from the General Fund. For the fiscal year 2007-2008, the General Fund transferred **\$230,174** to the Athletic Fund. This amount is \$5,908 less than originally projected. Like all other District budgets the Athletic Department has made budget cuts and engaged in significant activities to increase revenues.

CAPITAL PROJECTS FUND

- In the 2007-2008 fiscal year, the School District did not expend any of the \$ 2,207 balance from the Baseball Capital Improvement Fund, but transferred it to the Athletic Fund. Expenses from the Capital Improvement Fund totaled \$12,703. The Fund Balance of \$16,887 is earmarked for future capital projects expenses.

DEBT SERVICE FUND

- At the end of 2007-08 year, the School District had \$3,836,008 in bonds outstanding. The School District has additional obligations for an Equipment loan of \$128,342 and \$112,783 in long term Compensated Absences. There is more information about long-term liabilities in the Notes to the Financial Statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

- Capital Assets – As of June 30, 2008, the School District had \$9,479,538 invested in capital assets, net of accumulated depreciation of \$4,526,011, for net capital assets of \$4,953,527.
- Debt Administration – As of the fiscal year ending June 30, 2008, the District's long-term debt obligations included \$3,836,008 in Bonds, \$128,349 in Equipment Loans, and \$112,783 in Compensated Absences including accrued vacation and sick pay leave. More detail is provided in the notes to the financial statements.

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Hudson Area Schools
Hudson, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hudson Area Schools, as of and for the year ended June 30, 2008, which collectively comprise Hudson Area Schools' basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Hudson Area Schools' management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Hudson Area Schools, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2008 on our consideration of the Hudson Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

To the Board of Education
Hudson Area Schools
Hudson, Michigan

The management's discussion and analysis and budgetary comparison information on pages i through vii and page 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hudson Area Schools' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
October 28, 2008

HUDSON AREA SCHOOLS
STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

	<u>Governmental Activities</u>	
<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 923,629	\$ 1,028,932
Investments	225,335	217,186
Accounts receivable	186,973	84,512
Taxes receivable	5,626	13,405
Due from other governmental units	1,344,574	1,650,134
Inventory	1,505	1,609
Prepaid expenses	<u>4,588</u>	<u>4,588</u>
TOTAL CURRENT ASSETS	<u>2,692,230</u>	<u>3,000,366</u>
NONCURRENT ASSETS:		
Capital assets	9,479,538	9,393,425
Less: Accumulated depreciation	<u>(4,526,011)</u>	<u>(4,282,917)</u>
TOTAL NONCURRENT ASSETS	<u>4,953,527</u>	<u>5,110,508</u>
TOTAL ASSETS	<u>\$ 7,645,757</u>	<u>\$ 8,110,874</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES:		
Accounts payable	\$ 51,466	\$ 227,176
Accrued salaries and related items	792,535	710,582
Accrued interest	58,885	52,679
Unearned revenue	11,455	3,408
State aid loan	950,000	700,000
Current portion of long-term obligations	457,064	421,860
Current portion of compensated absences	<u>39,655</u>	<u>33,000</u>
TOTAL CURRENT LIABILITIES	<u>2,361,060</u>	<u>2,148,705</u>
NONCURRENT LIABILITIES:		
Noncurrent portion of long-term obligations	3,507,293	3,964,350
Compensated absences	<u>73,128</u>	<u>62,792</u>
TOTAL NONCURRENT LIABILITIES	<u>3,580,421</u>	<u>4,027,142</u>
TOTAL LIABILITIES	<u>5,941,481</u>	<u>6,175,847</u>
NET ASSETS:		
Invested in capital assets, net of related debt	989,170	724,298
Restricted for:		
Debt services	120,178	115,593
Capital improvements	16,887	31,671
School lunch	141,230	116,972
Unrestricted	<u>436,811</u>	<u>946,493</u>
TOTAL NET ASSETS	<u>\$ 1,704,276</u>	<u>\$ 1,935,027</u>

HUDSON AREA SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Totals Governmental Activities</u>	
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>	
				<u>2008</u>	<u>2007</u>
GOVERNMENTAL ACTIVITIES:					
Instruction	\$ 5,300,134	\$ 3,838	\$ 242,463	\$ (5,053,833)	\$ (4,895,774)
Support services	2,750,597		192,588	(2,558,009)	(2,322,958)
Food services	409,632	202,546	214,733	7,647	44,833
Athletics	316,985	91,927		(225,058)	(237,960)
Community services	62,252	3,750	51,854	(6,648)	44
Capital outlay	3,867			(3,867)	(2,055)
Other	86,319			(86,319)	(123,466)
Interest on long-term debt	197,773			(197,773)	(196,149)
Unallocated depreciation	<u>243,094</u>			<u>(243,094)</u>	<u>(253,732)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 9,370,653</u>	<u>\$ 302,061</u>	<u>\$ 701,638</u>	<u>\$ (8,366,954)</u>	<u>\$ (7,987,217)</u>
GENERAL REVENUES:					
Property taxes, levied for general purposes				741,468	679,237
Property taxes, levied for debt service				459,695	343,815
Investment earnings				29,077	40,436
State sources				6,646,559	6,923,904
Lenawee ISD Special Education allocation				193,955	151,928
Contributions private sources				15,902	27,168
Other				<u>49,547</u>	<u>101,104</u>
TOTAL GENERAL REVENUES				<u>8,136,203</u>	<u>8,267,592</u>
CHANGE IN NET ASSETS				(230,751)	280,375
Net assets, beginning of year				<u>1,935,027</u>	<u>1,654,652</u>
Net assets, end of year				<u>\$ 1,704,276</u>	<u>\$ 1,935,027</u>

HUDSON AREA SCHOOLS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2008

With Comparative Totals for June 30, 2007

	General Fund	Other Nonmajor Governmental Funds	Totals Governmental Funds	
			2008	2007
ASSETS:				
Cash and cash equivalents	\$ 650,177	\$ 273,452	\$ 923,629	\$ 1,028,932
Investments	225,149	186	225,335	217,186
Property taxes receivable	5,626		5,626	13,405
Accounts receivable	184,626	2,347	186,973	84,512
Due from other governmental units	1,325,509		1,325,509	1,628,597
Due from other governmental funds	16,797	25,572	42,369	32,161
Inventory		1,505	1,505	1,609
Prepaid expenditures	4,588		4,588	4,588
TOTAL ASSETS	<u>\$ 2,412,472</u>	<u>\$ 303,062</u>	<u>\$ 2,715,534</u>	<u>\$ 3,010,990</u>
LIABILITIES:				
Accounts payable	49,034	2,432	51,466	227,176
Loan payable	950,000		950,000	700,000
Accrued interest payable	32,347		32,347	23,847
Accrued salaries and related items	792,535		792,535	710,582
Due to other governmental funds	25,572	16,797	42,369	32,161
Unearned revenue	11,078	377	11,455	3,408
TOTAL LIABILITIES	<u>1,860,566</u>	<u>19,606</u>	<u>1,880,172</u>	<u>1,697,174</u>
FUND BALANCES:				
Reserved for:				
Inventory		1,505	1,505	1,609
School lunch		139,725	139,725	115,363
Prepaid expenditures	4,588		4,588	4,588
Debt service		120,178	120,178	115,593
Taxes receivable	5,626		5,626	8,089
Subsequent year's expenditures		16,887	16,887	31,671
Unreserved, undesignated	541,692	5,161	546,853	1,036,903
TOTAL FUND BALANCES	<u>551,906</u>	<u>283,456</u>	<u>835,362</u>	<u>1,313,816</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,412,472</u>	<u>\$ 303,062</u>	<u>\$ 2,715,534</u>	<u>\$ 3,010,990</u>
		2008		2007
TOTAL GOVERNMENTAL FUND BALANCES	\$	\$ 835,362	\$	\$ 1,313,816
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Capital assets used in the governmental activities are not financial resources and are not reported in the funds.				
The cost of the capital asset is	9,479,538		9,393,425	
The accumulated depreciation is	(4,526,011)		(4,282,917)	
		4,953,527		5,110,508
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds payable		(3,836,008)		(4,241,008)
Equipment loans		(128,349)		(145,202)
Compensated absences		(112,783)		(95,792)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid.		(26,538)		(28,832)
Due from other governmental units, revenue expected to be collected after September 1, 2008.		19,065		21,537
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 1,704,276</u>		<u>\$ 1,935,027</u>

HUDSON AREA SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	General Fund	Other Nonmajor Governmental Funds	Totals Governmental Funds 2008	2007
REVENUES:				
Local sources:				
Property taxes	\$ 741,468	\$ 459,695	\$ 1,201,163	\$ 1,023,052
Investment earnings	26,584	2,493	29,077	40,436
Food sales and athletic admissions		294,473	294,473	311,588
Other	49,004	20,668	69,672	111,149
TOTAL LOCAL SOURCES	817,056	777,329	1,594,385	1,486,225
State sources	6,856,396	16,804	6,873,200	7,223,237
Federal sources	260,264	214,733	474,997	511,101
Intermediate sources	196,427		196,427	138,034
TOTAL REVENUES	8,130,143	1,008,866	9,139,009	9,358,597
EXPENDITURES:				
Current:				
Instruction	5,315,774		5,315,774	5,398,499
Support services	2,720,096		2,720,096	2,498,002
Food service activities		407,502	407,502	379,870
Athletic activities		316,985	316,985	321,433
Community service activities	62,252		62,252	43,158
Other expenditures	79,751	4,603	84,354	122,465
Capital outlay	69,600	20,380	89,980	2,055
Debt Service:				
Interest expenditure	43,780	156,287	200,067	198,452
Other expenditure		261	261	1,001
TOTAL EXPENDITURES	8,291,253	906,018	9,197,271	8,964,935
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(161,110)	102,848	(58,262)	393,662
OTHER FINANCING SOURCES (USES):				
Prior period revenue	3,365		3,365	24,085
Prior period expense	(1,704)		(1,704)	
Transfers in		323,579	323,579	312,589
Transfers out	(321,372)	(2,207)	(323,579)	(312,589)
Redemption of principal	(16,853)	(405,000)	(421,853)	(404,075)
TOTAL OTHER FINANCING SOURCES (USES)	(336,564)	(83,628)	(420,192)	(379,990)
NET CHANGE IN FUND BALANCES	(497,674)	19,220	(478,454)	13,672
FUND BALANCES:				
Beginning of year	1,049,580	264,236	1,313,816	1,300,144
End of year	\$ 551,906	\$ 283,456	\$ 835,362	\$ 1,313,816

HUDSON AREA SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Net change in fund balances total governmental funds	\$ (478,454)	\$ 13,672
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balances. These costs are allocated over their estimated useful lives as depreciation in the Statement of Activities:		
Depreciation expense	(243,094)	(253,732)
Capital outlay	86,113	99,000
Accrued interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in the governmental funds until it is paid.		
Accrued interest payable beginning of year	28,832	31,135
Accrued interest payable end of year	(26,538)	(28,832)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but not in the Statement of Activities (where it is a reduction of liabilities).		
	421,853	404,075
Revenue is recorded on the accrual method in the Statement of Activities. In the governmental funds, it is recorded on the modified accrual method, and not considered available:		
Accrued revenue beginning of year	(21,537)	(7,643)
Accrued revenue end of year	19,065	21,537
Compensated absences are reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in the governmental funds:		
Accrued compensated absences beginning of the year	95,792	96,955
Accrued compensated absences end of year	(112,783)	(95,792)
Change in net assets of governmental activities	<u>\$ (230,751)</u>	<u>\$ 280,375</u>

HUDSON AREA SCHOOLS
STATEMENTS OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2008 and 2007

<u>ASSETS</u>	<u>Agency Fund</u>	
	<u>2008</u>	<u>2007</u>
Cash	\$ 53,116	\$ 52,255
TOTAL ASSETS	<u>\$ 53,116</u>	<u>\$ 52,255</u>
 <u>LIABILITIES</u>		
Due to student groups	\$ 53,116	\$ 52,255
TOTAL LIABILITIES	<u>\$ 53,116</u>	<u>\$ 52,255</u>

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Hudson Area Schools (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- ◆ A Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- ◆ Financial statements prepared using full accrual accounting for all of the District's activities.
- ◆ A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District has implemented the provisions of Statement No. 34 effective July 1, 2003.

A. Reporting Entity

The District is governed by the Board of Education (the "Board") of Hudson Area Schools, which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District's activities are classified as governmental activities. Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the statement of net assets. Amounts reported in the funds as receivable from or payable to fiduciary funds are included in the statement of net assets as receivable from or payable to external parties, rather than as internal balances. Therefore, all internal balances are eliminated in the total primary government column.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income, and other revenues).

The District allocates indirect costs to categorical and Federal programs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

Other Non-major Funds

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trust or major capital projects). The District accounts for its food service and athletic activities in the Special Revenue Funds.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust Funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary Funds are not included in the government-wide statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency Funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis Of Accounting And Basis Of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis Of Accounting And Basis Of Presentation (Continued)

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation.

<u>Fund</u>	<u>Mills</u>
General Fund – Non-homestead	17.9676
Debt Fund – Both Non-homestead and Homestead	2.78

3. Inventories and Prepaid Expenditures

Inventories are valued at cost (first-in, first-out). Inventories in the General and Special Revenue Funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed or used rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	10 – 45 years
Furniture and other equipment	5 – 15 years
Land improvements	20 years
Transportation equipment	7 – 10 years

The District's capitalization policy is to capitalize individual amounts exceeding \$2,500.

5. Fund Balances

Fund balances on the Governmental fund balance sheet are classified as either reserved or unreserved. The term reserved indicates that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use. The reserve for Taxes receivable represents the income from property taxes recognized, but not yet received at the fiscal year ended June 30, 2008. The reserve for the School lunch program represents the portion of fund balance that is legally segregated for expenditure within the School Lunch Fund. The reserve for Debt service and the reserve for Subsequent years expenses is legally segregated for expenditure within the Debt Service Funds and Capital Projects Funds, respectively. The reserve for Prepaid expenditures represents the amount paid in the current fiscal year that will provide benefit to the subsequent year. The reserve for Inventory represents the portion of fund balance not available for appropriation and expenditure at June 30, 2008.

6. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General, Special Revenue, and Debt Service Funds.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board Resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.
7. On the Budgetary Comparison Schedule, one expenditure functions exceeded budgeted amounts. It is listed below:

Technology	\$ 2,193
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HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 3. DEPOSITS AND INVESTMENTS – CREDIT RISK

The District utilizes pooled cash accounts for some of its funds.

Deposits

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the School District. The District does not have a deposit policy for custodial credit risk. As of June 30, 2008, \$1,455,929 of the District's bank balance of \$1,707,313 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$1,455,929</u>
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Investments

The District's investments included deposits in the Michigan CLASS asset management accounts in the amount of \$225,149

Credit Risk: The Michigan CLASS is not rated.

The District's investments included deposits into the Fifth Third Institutional Government Preferred in the amount of \$186.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name.

	CATEGORY			Carrying Amount
	<u>1</u>	<u>2</u>	<u>3</u>	
Investments	<u>\$ 225,149</u>	<u>\$ 186</u>	<u>\$ -</u>	<u>\$ 225,335</u>

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 4. CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Non depreciable assets:				
Land	\$ 220,859	\$	\$	\$ 220,859
Total non depreciable assets	<u>220,859</u>	<u>-</u>	<u>-</u>	<u>220,859</u>
Other capital assets:				
Land improvements	380,128			380,128
Buildings and additions	7,198,398			7,198,398
Machinery and equipment	650,124	16,513		666,637
Buses	883,852	69,600		953,452
Software	<u>60,064</u>	<u></u>	<u></u>	<u>60,064</u>
Total depreciable assets	<u>9,172,566</u>	<u>86,113</u>	<u></u>	<u>9,258,679</u>
Less:				
Land improvements	272,855	8,834		281,689
Buildings and additions	2,792,223	142,866		2,935,089
Machinery and equipment	385,635	42,490		428,125
Buses	789,157	36,893		826,050
Software	<u>43,047</u>	<u>12,012</u>	<u></u>	<u>55,059</u>
	<u>4,282,917</u>	<u>243,095</u>	<u></u>	<u>4,526,012</u>
Net depreciable capital assets	<u>4,889,649</u>	<u>(156,982)</u>	<u>-</u>	<u>4,732,667</u>
Net capital assets	<u>\$ 5,110,508</u>	<u>\$ (156,982)</u>	<u>\$ -</u>	<u>\$ 4,953,526</u>

Depreciation for the fiscal year ended June 30, 2008 amounted to \$243,095. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 5. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS

The District issued general obligation bonds to provide funds for the construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of the governmental long-term obligations for the District for the year ended June 30, 2008:

	<u>Bonds</u>	<u>Equipment Loan</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance July 1, 2007	\$ 4,241,008	\$ 145,195	\$ 95,792	\$ 4,481,995
Additions			16,991	16,991
Deletions	<u>(405,000)</u>	<u>(16,853)</u>	<u> </u>	<u>(421,853)</u>
Balance June 30, 2008	3,836,008	128,342	112,783	4,077,133
Less:				
Current portion	455,137	1,927	39,655	496,719
Total due after one year	<u>\$ 3,380,871</u>	<u>\$ 126,415</u>	<u>\$ 73,128</u>	<u>\$ 3,580,414</u>

2003 REFUNDING BONDS

On February 27, 2003, the School District issued \$4,710,000 in General Obligation Bonds with an average interest rate of 3.54% to advance refund \$4,095,000 of outstanding 1993 Building and Site Bonds and \$805,000 of outstanding 1995 Building and Site Bonds, with average interest rates of 5.00% and 5.97%, respectively.

The net proceeds of \$4,643,877 (after payment of \$93,115 in underwriting fees, and other insurance costs), together with \$482,500 from the 1993 and 1995 Debt Funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the callable 1993 and 1995 Building and Site Bonds. As a result, the callable 1993 and 1995 Building and Site Bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt. The net present value savings of the refunding is approximately \$381,000.

SCHOOL IMPROVEMENT BOND ISSUE

The School District issued \$103,321 School Improvement Bonds, Series 1998 (Durant Non-Plaintiff Resolution) on September 18, 1998. The bonds were issued under the provisions of Act 94 of the Public Acts of 1979, as amended, for purposes which bonds may be issued under Section 1351a of Act 451 of the Public Acts of 1976, as amended. The School District will pledge and assign certain State School Aid payments to be appropriated to the School District in accordance with and for the purpose set forth in Section 11g(3) of Act 94, as security for the payment of the bonds and interest. However, if the State of Michigan Legislature fails to appropriate the funds, the School District is under no obligation of payment on the bonds. The bonds will not

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 5. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

constitute a general obligation or debt of the School District within the meaning of any constitutional or statutory debt limitations.

The Durant Bonds, including interest, were issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid Payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. Due to economic conditions in the State of Michigan, payments of State Aid were eliminated and those payments due in years 2003 through 2005 and 2008 through 2008 are scheduled to be paid in year 2011.

EQUIPMENT LOAN

- The School District has a loan outstanding with United Bank & Trust for the purpose of purchasing fitness equipment for \$198,308. The loan principal is due in equal monthly installments payable over ten years, with interest due at the same date. The loan has an interest rate of 4.627%.

A schedule of loan payments (including interest) is as follows:

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2009	4.627%	19,270	5,610	24,880
2010	4.627%	20,193	4,387	24,580
2011	4.627%	21,161	3,530	24,691
2012	4.627%	22,254	2,463	24,717
2013	4.627%	23,274	1,606	24,880
2014	4.627%	<u>22,190</u>	<u>245</u>	<u>22,435</u>
		<u>\$ 128,342</u>	<u>\$ 17,841</u>	<u>\$ 146,183</u>

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 5. GENERAL LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

The following is a summary of the long-term debt transactions of the School District for the year ended June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
1998 School Improvement	\$ 61,008	\$	\$	\$ 61,008
2001 Energy Bond	690,000		60,000	630,000
2003 Refunding Bonds	3,490,000		345,000	3,145,000
Equipment loan	<u>145,195</u>	<u> </u>	<u>16,853</u>	<u>128,342</u>
	<u>\$ 4,386,203</u>	<u>\$</u>	<u>\$ 421,853</u>	<u>\$ 3,964,350</u>

The annual requirements to amortize long-term outstanding debt as of June 30, 2008, including interest of \$758,916, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	474,407	163,172	637,579
2010	461,217	134,943	596,160
2011	477,472	118,796	596,268
2012	498,865	101,182	600,047
2013	520,230	82,391	602,621
2014-2018	1,382,159	148,382	1,530,541
2019-2020	<u>150,000</u>	<u>10,050</u>	<u>160,050</u>
	<u>\$ 3,964,350</u>	<u>\$ 758,916</u>	<u>\$ 4,723,266</u>

NOTE 6. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Plan Description The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental, and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 6. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

Funding Policy Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008 were 17.74% of payroll through September 30, 2007, and 16.72% effective October 1, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to the MPSERS for the years ended June 30, 2008, 2007, and 2006, were \$994,499, \$849,311, and \$798,685, respectively, equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental, and vision coverage.

NOTE 7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan, for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The District cannot estimate losses from reported and unreported claims at June 30, 2008. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The likelihood of additional District liability is minimal.

HUDSON AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 7. RISK MANAGEMENT (Continued)

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

NOTE 8. INTERFUND BALANCES AND TRANSFERS

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. All balances are expected to be repaid within one year.

A schedule of interfund balances follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 16,797	General	\$ 25,572
Nonmajor	<u>25,572</u>	Nonmajor	<u>16,797</u>
	<u>\$ 42,369</u>		<u>\$ 42,369</u>

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

A schedule of interfund transfers follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Nonmajor	\$ <u>321,372</u>	General	\$ <u>321,372</u>

NOTE 9. CONTINGENCIES

The District had no contingencies at June 30, 2008.

**INDEPENDENT AUDITORS' REPORT ON REQUIRED
SUPPLEMENTARY INFORMATION**

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
October 28, 2008

HUDSON AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Local sources	\$ 789,250	\$ 713,790	\$ 817,056	\$ 103,266
State sources	7,234,549	6,926,502	6,856,396	(70,106)
Federal sources	228,933	291,308	260,264	(31,044)
Intermediate sources	<u>160,000</u>	<u>184,316</u>	<u>196,427</u>	<u>12,111</u>
TOTAL REVENUES	<u>8,412,732</u>	<u>8,115,916</u>	<u>8,130,143</u>	<u>14,227</u>
EXPENDITURES:				
Instruction:				
Basic programs	4,201,969	4,360,836	4,360,817	19
Added needs	<u>964,409</u>	<u>954,975</u>	<u>954,957</u>	<u>18</u>
TOTAL INSTRUCTION	<u>5,166,378</u>	<u>5,315,811</u>	<u>5,315,774</u>	<u>37</u>
Support services:				
Pupil	174,357	226,275	226,273	2
Instructional staff	97,634	89,465	89,456	9
General administration	331,953	343,625	325,731	17,894
School administration	464,407	493,454	493,435	19
Business	187,925	180,760	180,759	1
Operation/maintenance	847,602	811,960	811,948	12
Pupil transportation	456,699	484,979	484,971	8
Central Services		265	265	
Technology	<u>176,108</u>	<u>175,461</u>	<u>176,858</u>	<u>(1,397)</u>
TOTAL SUPPORT SERVICES	<u>2,736,685</u>	<u>2,806,244</u>	<u>2,789,696</u>	<u>16,548</u>
Debt Service:				
Interest	<u>63,605</u>	<u>42,248</u>	<u>43,780</u>	<u>(1,532)</u>
Community services	66,123	62,255	62,252	3
Other	<u>200,000</u>	<u>79,751</u>	<u>79,751</u>	
TOTAL EXPENDITURES	<u>8,232,791</u>	<u>8,306,309</u>	<u>8,291,253</u>	<u>15,056</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>179,941</u>	<u>(190,393)</u>	<u>(161,110)</u>	<u>29,283</u>
OTHER FINANCING SOURCES (USES):				
Prior period revenue			3,365	3,365
Prior period expense		(1,704)	(1,704)	
Redemption of principal	(75,000)	(18,389)	(16,853)	1,536
Transfers out	<u>(233,875)</u>	<u>(321,372)</u>	<u>(321,372)</u>	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(308,875)</u>	<u>(341,465)</u>	<u>(336,564)</u>	<u>4,901</u>
NET CHANGE IN FUND BALANCE	<u>(128,934)</u>	<u>(531,858)</u>	<u>(497,674)</u>	<u>34,184</u>
FUND BALANCE:				
Beginning of year			<u>1,049,580</u>	
End of year			<u>\$ 551,906</u>	

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Hudson Area Schools
Hudson, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hudson Area Schools, as of and for the year ended June 30, 2008, which collectively comprise Hudson Area Schools' basic financial statements and have issued our report thereon dated October 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Hudson Area Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote

To the Board of Education
Hudson Area Schools
Hudson, Michigan

likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We considered the deficiency described as 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2008-1, is not a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Hudson Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hudson Area School's response to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit Hudson Area Schools' response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
October 28, 2008

HUDSON AREA SCHOOLS
SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2008

Finding 2008-1

Finding considered a significant deficiency

Criteria:

Effective for the year ended June 30, 2008, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2007), requires us to communicate in writing to managements and those charged with governance, significant deficiencies and material weaknesses identified in an audit.

Condition

Currently there are no segregation of conflicting duties of initiating transactions, and the recording of those transactions

Cause

The District has a limited number of personnel.

Effect

Segregation of duties would provide another measure of internal control to provide the ability of the District to determine, in a reasonable amount of time, whether all transactions initiated are recorded and reported timely and accurately.

Recommendation

The District should consider adding additional personnel in order to segregate duties.

Client Response

The additional staff member that was added in July of 2007 did not actually begin her duties in the business office until July of 2008. This delayed by one year the implementation of the separation of duties as planned by the district. That separation is now fully in place, and the condition has been rectified.

HUDSON AREA SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES

June 30, 2008
With Comparative Totals for June 30, 2007

<u>ASSETS</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals Nonmajor Governmental Funds</u>	
				<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 157,529	\$ 99,036	\$ 16,887	\$ 273,452	\$ 214,355
Investments		186		186	1,231
Accounts receivable	2,347			2,347	
Taxes receivable					5,316
Due from other government units					30,179
Due from other funds	4,616	20,956		25,572	26,224
Inventory	<u>1,505</u>	<u> </u>	<u> </u>	<u>1,505</u>	<u>1,609</u>
TOTAL ASSETS	<u>\$ 165,997</u>	<u>\$ 120,178</u>	<u>\$ 16,887</u>	<u>\$ 303,062</u>	<u>\$ 278,914</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES:					
Accounts payable	\$ 2,432	\$	\$	\$ 2,432	\$ 8,741
Due to other funds	16,797			16,797	5,937
Unearned revenue	<u>377</u>	<u> </u>	<u> </u>	<u>377</u>	<u> </u>
TOTAL LIABILITIES	<u>19,606</u>	<u> </u>	<u> </u>	<u>19,606</u>	<u>14,678</u>
FUND BALANCES:					
Reserved for:					
Inventory	1,505			1,505	1,609
School lunch	139,725			139,725	115,363
Debt service		120,178		120,178	115,593
Subsequent year's expenditures			16,887	16,887	31,671
Unreserved, undesignated	<u>5,161</u>	<u> </u>	<u> </u>	<u>5,161</u>	<u> </u>
TOTAL FUND BALANCES	<u>146,391</u>	<u>120,178</u>	<u>16,887</u>	<u>283,456</u>	<u>264,236</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 165,997</u>	<u>\$ 120,178</u>	<u>\$ 16,887</u>	<u>\$ 303,062</u>	<u>\$ 278,914</u>

HUDSON AREA SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUND TYPES

For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals Nonmajor Governmental Funds 2008</u>	<u>2007</u>
REVENUES:					
Local sources:					
Property taxes	\$	\$ 459,695	\$	\$ 459,695	\$ 343,815
Investment earnings	1,795	572	126	2,493	3,186
Food sales and athletic admissions	294,473			294,473	311,588
Other local	<u>8,207</u>	<u>12,461</u>		<u>20,668</u>	<u>44,662</u>
TOTAL LOCAL SOURCES	304,475	472,728	126	777,329	703,251
State sources	16,804			16,804	12,892
Federal sources	<u>214,733</u>			<u>214,733</u>	<u>196,207</u>
TOTAL REVENUES	<u>536,012</u>	<u>472,728</u>	<u>126</u>	<u>1,008,866</u>	<u>912,350</u>
EXPENDITURES:					
Current:					
Food service activities	407,502			407,502	379,870
Athletic activities	316,985			316,985	321,433
Other			4,603	4,603	5,044
Capital outlay	12,280		8,100	20,380	2,055
Debt Service:					
Interest		156,287		156,287	168,800
Other		<u>261</u>		<u>261</u>	<u>1,001</u>
TOTAL EXPENDITURES	<u>736,767</u>	<u>156,548</u>	<u>12,703</u>	<u>906,018</u>	<u>878,203</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(200,755)</u>	<u>316,180</u>	<u>(12,577)</u>	<u>102,848</u>	<u>34,147</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	230,174	93,405		323,579	312,589
Transfers out			(2,207)	(2,207)	
Redemption of principal		<u>(405,000)</u>		<u>(405,000)</u>	<u>(385,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>230,174</u>	<u>(311,595)</u>	<u>(2,207)</u>	<u>(83,628)</u>	<u>(72,411)</u>
NET CHANGE IN FUND BALANCES	29,419	4,585	(14,784)	19,220	(38,264)
FUND BALANCES:					
Beginning of year	<u>116,972</u>	<u>115,593</u>	<u>31,671</u>	<u>264,236</u>	<u>302,500</u>
End of year	<u>\$ 146,391</u>	<u>\$ 120,178</u>	<u>\$ 16,887</u>	<u>\$ 283,456</u>	<u>\$ 264,236</u>

HUDSON AREA SCHOOLS
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS

June 30, 2008
With Comparative Totals for June 30, 2007

			Totals	
<u>ASSETS</u>	<u>School Lunch</u>	<u>Athletics</u>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 154,626	\$ 2,903	\$ 157,529	\$ 90,049
Due from other funds	2,358	2,258	4,616	5,268
Accounts receivable	2,347		2,347	
Due from other governmental units				30,179
Inventory	<u>1,505</u>	<u> </u>	<u>1,505</u>	<u>1,609</u>
TOTAL ASSETS	<u>\$ 160,836</u>	<u>\$ 5,161</u>	<u>\$ 165,997</u>	<u>\$ 127,105</u>
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts Payable	\$ 2,432	\$	\$ 2,432	\$ 4,415
Due to other funds	16,797		16,797	5,718
Unearned revenue	<u>377</u>	<u> </u>	<u>377</u>	<u> </u>
TOTAL LIABILITIES	<u>19,606</u>	<u>-</u>	<u>19,606</u>	<u>10,133</u>
FUND BALANCES:				
Reserved for:				
Inventory	1,505		1,505	
School lunch	139,725		139,725	116,972
Unreserved, undesignated	<u> </u>	<u>5,161</u>	<u>5,161</u>	<u> </u>
TOTAL FUND BALANCES	<u>141,230</u>	<u>5,161</u>	<u>146,391</u>	<u>116,972</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 160,836</u>	<u>\$ 5,161</u>	<u>\$ 165,997</u>	<u>\$ 127,105</u>

HUDSON AREA SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	<u>School Lunch</u>	<u>Athletics</u>	<u>2008</u>	Totals <u>2007</u>
REVENUES:				
Local sources:				
Sales	\$ 202,546	\$ 91,927	\$ 294,473	\$ 311,588
Investment earnings	1,750	45	1,795	1,708
Other	<u>8,207</u>	<u> </u>	<u>8,207</u>	<u>17,461</u>
TOTAL LOCAL SOURCES	212,503	91,972	304,475	330,757
State sources	16,804		16,804	12,892
Federal sources	<u>214,733</u>	<u> </u>	<u>214,733</u>	<u>196,207</u>
TOTAL REVENUES	<u>444,040</u>	<u>91,972</u>	<u>536,012</u>	<u>539,856</u>
EXPENDITURES:				
Cost of goods sold -- net	267,940		267,940	245,045
Salaries and wages	98,834	187,347	286,181	280,910
Employee benefits	29,935	51,172	81,107	75,117
Contracted services	10,011	34,284	44,295	34,893
Travel, workshops and conferences	110	3,701	3,811	
Materials and supplies	672	29,957	30,629	65,338
Capital outlay	12,280		12,280	2,055
Miscellaneous	<u> </u>	<u>10,524</u>	<u>10,524</u>	<u> </u>
TOTAL EXPENDITURES	<u>419,782</u>	<u>316,985</u>	<u>736,767</u>	<u>703,358</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	24,258	(225,013)	(200,755)	(163,502)
OTHER FINANCING SOURCES:				
Transfers in	<u>-</u>	<u>230,174</u>	<u>230,174</u>	<u>221,297</u>
NET CHANGE IN FUND BALANCES	24,258	5,161	29,419	57,795
FUND BALANCES:				
Beginning of year	<u>116,972</u>	<u>-</u>	<u>116,972</u>	<u>59,177</u>
End of year	<u>\$ 141,230</u>	<u>\$ 5,161</u>	<u>\$ 146,391</u>	<u>\$ 116,972</u>

HUDSON AREA SCHOOLS
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
June 30, 2008
With Comparative Total for June 30, 2007

	1998 School Improvement	2003 Debt	Energy Bond	Totals 2008	2007
<u>ASSETS</u>					
Cash and cash equivalents	\$	\$ 99,036	\$	\$ 99,036	\$ 88,309
Investments		186		186	1,231
Taxes receivable					5,316
Due from other funds		<u>20,956</u>		<u>20,956</u>	<u>20,956</u>
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 120,178</u>	<u>\$ -</u>	<u>\$ 120,178</u>	<u>\$ 115,812</u>
<u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES:					
Due to other funds	\$	\$	\$	\$	\$ 219
TOTAL LIABILITIES	-	-	-	-	219
FUND BALANCES:					
Reserved for:					
Debt service	<u>-</u>	<u>120,178</u>	<u>-</u>	<u>120,178</u>	<u>115,593</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 120,178</u>	<u>\$ -</u>	<u>\$ 120,178</u>	<u>\$ 115,812</u>

HUDSON AREA SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

DEBT SERVICE FUNDS

For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	<u>1998</u> <u>School</u> <u>Improvement</u>	<u>2003</u> <u>Debt</u>	<u>Energy</u> <u>Bond</u>	<u>Totals</u> <u>2008</u>	<u>2007</u>
REVENUES:					
Taxes	\$	\$ 459,695	\$	\$ 459,695	\$ 343,815
Interest		572		572	1,322
Other		<u>12,461</u>		<u>12,461</u>	<u>27,201</u>
TOTAL REVENUES	<u>-</u>	<u>472,728</u>	<u>-</u>	<u>472,728</u>	<u>372,338</u>
EXPENDITURES:					
Interest		122,882	33,405	156,287	168,800
Other		<u>261</u>		<u>261</u>	<u>1,001</u>
TOTAL EXPENDITURES	<u>-</u>	<u>123,143</u>	<u>33,405</u>	<u>156,548</u>	<u>169,801</u>
EXCESS (DEFICIENCY) OF					
REVENUES OVER (UNDER)					
EXPENDITURES	<u>-</u>	<u>349,585</u>	<u>(33,405)</u>	<u>316,180</u>	<u>202,537</u>
OTHER FINANCING					
SOURCES (USES):					
Transfers in			93,405	93,405	91,292
Redemption of principal		<u>(345,000)</u>	<u>(60,000)</u>	<u>(405,000)</u>	<u>(385,000)</u>
TOTAL OTHER FINANCING					
SOURCES (USES)	<u>-</u>	<u>(345,000)</u>	<u>33,405</u>	<u>(311,595)</u>	<u>(293,708)</u>
NET CHANGE IN FUND					
BALANCES		4,585		4,585	(91,171)
FUND BALANCES:					
Beginning of year	<u>-</u>	<u>115,593</u>	<u>-</u>	<u>115,593</u>	<u>206,764</u>
End of year	<u>\$ -</u>	<u>\$ 120,178</u>	<u>\$ -</u>	<u>\$ 120,178</u>	<u>\$ 115,593</u>

HUDSON AREA SCHOOLS
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS

June 30, 2008
With Comparative Totals for June 30, 2007

	Capital Improvement	Baseball Capital Improvement	Totals 2008	2007
<u>ASSETS</u>				
Cash and cash equivalents	\$ 16,887	\$	\$ 16,887	\$ 35,997
Due from other funds				
TOTAL ASSETS	<u>\$ 16,887</u>	<u>\$ -</u>	<u>\$ 16,887</u>	<u>\$ 35,997</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
LIABILITIES:				
Accounts Payable	\$ -	\$ -	\$ -	\$ 4,326
FUND BALANCE:				
Reserved for:				
Capital outlay	16,887		16,887	31,671
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 16,887</u>	<u>\$ -</u>	<u>\$ 16,887</u>	<u>\$ 35,997</u>

HUDSON AREA SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

CAPITAL PROJECTS FUNDS

For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	<u>Capital Improvement</u>	<u>Baseball Capital Improvement</u>	<u>Totals 2008</u>	<u>2007</u>
REVENUES:				
Interest	\$ 118	\$ 8	\$ 126	\$ 156
TOTAL REVENUES	<u>118</u>	<u>8</u>	<u>126</u>	<u>156</u>
EXPENDITURES:				
Operating expenses	8,100		8,100	5,044
Capital outlay	<u>4,603</u>		<u>4,603</u>	
TOTAL EXPENDITURES	<u>12,703</u>	<u>-</u>	<u>12,703</u>	<u>5,044</u>
EXCESS (DEFICIENCY) OF REVENUES UNDER EXPENDITURES	<u>(12,585)</u>	<u>8</u>	<u>(12,577)</u>	<u>(4,888)</u>
OTHER FINANCING USES:				
Transfers out	<u>-</u>	<u>(2,207)</u>	<u>(2,207)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(12,585)</u>	<u>(2,199)</u>	<u>(14,784)</u>	<u>(4,888)</u>
FUND BALANCES:				
Beginning of year	<u>29,472</u>	<u>2,199</u>	<u>31,671</u>	<u>36,559</u>
End of year	<u>\$ 16,887</u>	<u>\$ -</u>	<u>\$ 16,887</u>	<u>\$ 31,671</u>

HUDSON AREA SCHOOLS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES
AGENCY FUND

For the Year Ended June 30, 2008

<u>ASSETS</u>	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>
Cash and cash equivalents	\$ 52,255	\$ 101,046	\$ 100,185	\$ 53,116
TOTAL ASSETS	<u>\$ 52,255</u>	<u>\$ 101,046</u>	<u>\$ 100,185</u>	<u>\$ 53,116</u>
<u>LIABILITIES</u>				
Due to student groups	\$ 52,255	\$ 101,046	\$ 100,185	\$ 53,116
TOTAL LIABILITIES	<u>\$ 52,255</u>	<u>\$ 101,046</u>	<u>\$ 100,185</u>	<u>\$ 53,116</u>

October 28, 2008

To the Board of Education
Hudson Area Schools
Hudson, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hudson Area Schools (District) for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated June 26, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

2. Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the estimated accounts and taxes receivable, estimated compensated absences, estimated capital asset lives for depreciation and the estimated values used for the District's capital assets upon the implementation of GASB Statement No. 34.

Accounts and taxes receivable and compensated absences are estimated using the information available as of the date of the auditors' report. Management's estimate of values used for the District's capital assets is based upon either historical cost, if known, or the estimated fair value at the implementation of GASB Statement No. 34 and estimated useful lives are reviewed annually. We evaluated the key factors and assumptions used to develop accounts and taxes receivable, capital assets and the lives for depreciation in determining that they are reasonable in relation to the financial statements taken as a whole.

To the Board of Education
Hudson Area Schools
Hudson, Michigan

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 28, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements for a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Robertson, Eaton & Owen, P.C.